contends were calculated in compliance with the *Designation Order*, by less than one-half of one percent.[514] Sprint contends that neither AT&T nor MCI challenged Sprint's calculations. Instead, contends Sprint, the oppositions by AT&T and MCI urge the Commission to require the LECs to adjust their current rate levels and make refunds for the period covered by the investigation.[515]

309. Although not directly challenged by AT&T, Sprint argues that there are two significant flaws in the forecasting methodology AT&T uses to contest the BFP requirement forecasts of LECs generally. First, Sprint contends that AT&T's calculations of revenue requirement growth percentages between the tariff filing years fail to adjust for Commission rule changes. Although AT&T's methodology, if applied to Sprint, produces a tariff year 1997/98 BFP revenue requirement forecast that is nearly $12 million higher than Sprint's filed BFP revenue requirement forecast, Sprint argues that AT&T's methodology is flawed because it fails to account for the revenue impacts of rule changes.[516]

310. Second, according to Sprint, AT&T's methodology for calculating the cumulative impact of CCL under- and over-charges appears to compound tariff year effects throughout a six-year period incorrectly. Sprint argues that the compounding effect should cease once the multi-line business rate equals the price cap of $6.00.[517] Sprint contends that AT&T incorrectly compounds the effects of the first two tariff years over the entire six-year period.[518] Once the multi-line business rate charge equals the cap, any further increase in the EUCL revenue requirement must be recovered through the CCL charge.

311. SNET states in its rebuttal that neither AT&T nor MCI enumerates any failings by SNET, nor takes issue with the accuracy or reasonableness of its BFP projections.[519] SNET contends that its projected BFP revenue requirements used in its 1997 Annual Access tariff filing is consistent with the trend of SNET's actual BFP revenue requirements. According to SNET, it has fully explained any significant difference between each annual BFP revenue requirement projection and SNET's actual annual BFP revenue requirement. SNET argues that AT&T's statement that the price cap LECs, as a group, have consistently

[514] Sprint Rebuttal at 1.

[515] Sprint Rebuttal at 1-2.

[516] Sprint Rebuttal at 2.

[517] Sprint Rebuttal at 2.

[518] Sprint Rebuttal at 3.

[519] SNET Rebuttal at 1-2.

underestimated their BFP is a over-generalization and ignores the facts.[520]

312. SBC argues that AT&T's purported use of a trend analysis using ARMIS 43-01 data to determine actual tariff period BFP revenue requirements, and then calculating year over year changes to generate a multi-year forecast of BFP requirements, is inaccurate and overstates the BFP requirement.[521] SBC also argues that MCI's three iterations of a BFP forecast results in a similar overstatement. Further, both AT&T and MCI, according to SBC, have omitted key adjustments for OB&C and Account 4310 rule changes.

313. SBC argues, on behalf of SWBT, that the growth rates used by AT&T and MCI do not reflect the normalized growth rate submitted for SWBT in its direct case because they do not account for the impact of OPEB accounting implementation on expense growth.[522] This failure to account for these rule changes, according to SBC, results in improper apparent annual growth rates for SWBT of approximately 6.96 percent (or 10 percent restated on an eighteen-month basis), rather than 6 percent (or 9 percent, similarly restated), filed for SWBT in its direct case.[523]

314. SBC also contends that AT&T is incorrect in suggesting that EUCL demand projections should be based on a trend analysis. SBC argues that AT&T provides no reason for replacing the current EUCL demand forecasting methodology, and that line forecasting is particularly ill-suited to estimation by historical trending.[524]

315. SBC argues that AT&T erroneously claims that an adjustment to current EUCL and CCL rates to remove the impact of past forecasting deviations on a going-forward basis is required to ensure that the CCL rate effect of past forecasting deviations from actual amounts are removed from current rates. The fact that BFP revenue forecasts were not 100 percent accurate in the past should not result, argues SBC, in any required adjustment to current rates. SBC contends that the EUCL and CCL rates that have been in effect for prior years have been deemed reasonable and are not under either an accounting order or rate investigation.[525]

316. U S WEST contends that the forecasting methodology AT&T advocates is not

[520] SNET Rebuttal at 4.

[521] SBC Rebuttal at 1-2.

[522] SBC Rebuttal at 4.

[523] *Id.*

[524] SBC Rebuttal at 5.

[525] SBC Rebuttal at 6.

consistent with the Commission's rules. According to U S WEST, the "error-correction" mechanism AT&T advocates, which would require the LECs to adjust their forecasts each year to account for the revenue difference between the prior year's projected and actual BFP revenue requirement, is not a "forecasting" methodology because it would remove all of the uncertainty inherent in a forecast.[526] U S WEST argues that, to adopt AT&T's methodology or any other change to the rules governing BFP revenue requirement forecasting, the Commission would need to conduct a rulemaking proceeding.[527] Without the error-correction mechanism, AT&T's proposal becomes a request that the Commission require the LECs to project their BFP revenue requirements using the average BFP growth rate for some number of prior calendar years. U S WEST argues that AT&T has offered no proof that this methodology would necessarily produce a more accurate projection for any particular tariff year than does the LECs' current methodologies. To the contrary, U S WEST calculated the average growth rate for each of the eight BOCs over the past five years, and used this growth rate to forecast the BFP revenue requirement for each tariff year 1992/93 through 1996/97. According to U S WEST, AT&T's method produced a more accurate forecast than that submitted by the BOCs in exactly twenty out of forty cases.[528]

317. U S WEST contends that the Commission should not order a change in BFP methodologies for price cap LECs for the current tariff year because, on January 1, 1998, rule changes adopted in the *Access Charge Reform*[529] proceeding will take effect that require U S WEST to begin recovering line-side port costs and marketing expenses first through the EUCL charge. According to U S WEST, these changes will likely result in MLB EUCL charges that are at or near the $9.00 cap in all of its states.[530] Therefore, any prospective rate change would only be effective, according to U S WEST, for a short period of time.

318. U S WEST also responds to AT&T's argument that it calculated its 1995 and 1996 BFP revenue requirement improperly by ignoring the Commission's RAO Letter 20. U S WEST argues that its BFP revenue requirement calculation properly ignored the directive of RAO Letter 20 because, on review, the Commission rescinded the relevant portion of RAO Letter 20, determining that the Bureau had exceeded its delegated authority in directing

[526] U S WEST Rebuttal at 7.

[527] U S WEST Rebuttal at 8.

[528] U S WEST Rebuttal at 9-11.

[529] Access Charge Reform, *et. al.*, CC Docket No. 96-262, *et. al.*, First Report and Order, FCC 97-158 (rel. May 16, 1997).

[530] U S WEST Rebuttal at 11.

certain exclusions from and additions to the affected carriers' rate bases.[531] Therefore, U S WEST argues that it properly disregarded RAO Letter 20 requirements because the letter had no validity from its inception.[532]

319. GTE contends that AT&T and MCI are not correct in their argument that GTE has consistently underestimated its BFP revenue requirement and has consequently imposed improperly inflated CCL charges on IXCs. GTE contends that its variance of 1.5 percent from actual is a reasonable margin of error for projecting interstate BFP revenue requirement.[533] GTE also argues that AT&T's proposal to use actual results instead of projections is irrelevant to this investigation.

B. Equal Access Exogenous Cost Changes

1. Contentions of the Parties

320. Bell Atlantic opposes the adoption of the *1997 Designation Order's* tentative conclusion that more than the actual amount of equal access costs should be removed from rates by adjusting the actual amount upward based on growth in demand.[534] Bell Atlantic argues that the *Access Charge Reform Order* merely directed LECs to make a downward adjustment to account for the completed amortization of equal access expenses; it did not include any requirement to augment the removal of equal access costs by demand growth.[535] If the Commission were to require an adjustment to reflect growth in demand, any such adjustment should be based on total basket revenues, and not just local switching revenues as proposed by AT&T.[536]

321. U S WEST states that the "R" adjustment proposed by AT&T and used by Aliant is an inappropriate method for the removal of equal access cost recovery from the PCI.[537]

---

531 U S WEST Rebuttal at 12 (*citing Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32; Amendments to Part 65, Interstate Rate of Return Prescription Procedures and Methodologies, Subpart G, Rate Base*, Memorandum Opinion and Order and Notice of Proposed Rulemaking, 11 FCC Rcd 2957 (1996)).

532 U S WEST Rebuttal at 12-13.

533 GTE Rebuttal at 3.

534 Bell Atlantic Direct Case at 7; *see also*, Ameritech Direct Case at 6.

535 Bell Atlantic Direct Case at 7.

536 Bell Atlantic Direct Case at 8.

537 U S WEST Direct Case at 23.

U S WEST explains that "R" values are base period revenues (previous year's demand multiplied by the current rate) used for spreading exogenous costs to baskets and adjusting the PCI.[538] U S WEST states that costs for equal access cost recovery (which do not change with demand) are associated with a particular time period and will be adjusted in the price cap model through an exogenous change.[539] According to U S WEST, this exogenous adjustment does not have a direct relationship to "R" values.[540] U S WEST explains that if a carrier is priced to its cap, then exogenous costs would have some impact on revenues and correspondingly on "R".[541] If a carrier prices below the cap, it states, then the impact of exogenous adjustments on "R" values is uncertain.[542]

322. According to SBC, the regulatory objective of the removal of non-capitalized equal access costs is to remove from prices the level of costs reflected in prices.[543] Most LECs argue that an "R" adjustment would remove more costs than are actually recovered and would penalize price cap LECs.[544] Bell Atlantic further states that in the 1993 tariff year, the separate rate element for equal access costs was set at zero, and cost recovery occurred through other elements in the traffic sensitive price cap basket.[545] If the Commission were to require an "R" value adjustment, Bell Atlantic and Ameritech contend that the only reasonable starting point would be the start of such recovery in 1993, because prior to that date, equal access recovery was only augmented by the growth in lines, which grew at a much slower rate than the growth in the interstate local switching revenues.[546] Bell Atlantic explains that at the start of price caps, equal access costs were collected as a separate per-line rate element, and growth in local switching revenues had no impact on the total amount collected for that rate element.[547] Bell Atlantic contends that it would be arbitrary to require that the removal

[538] U S WEST Direct Case at 23.

[539] U S WEST Direct Case at 24.

[540] U S WEST Direct Case at 24.

[541] U S WEST Direct Case at 24.

[542] U S WEST Direct Case at 24.

[543] SBC Companies Direct Case at 42.

[544] Bell Atlantic Direct Case at 10; SNET Direct Case at 8; SBC Companies Direct Case at 42-43; Ameritech Direct Case at 6; U S WEST Direct Case at 23..

[545] Bell Atlantic Direct Case at 8-9.

[546] Bell Atlantic Direct Case at 9; *see also*, Ameritech Direct Case at 7.

[547] Bell Atlantic Direct Case at 8.

of those costs from rates should reflect a factor for growth in local switching revenues for the period when such growth was irrelevant to the rate element.[548]

323. Many LECs state that a PCI adjustment is a reasonable means by which to ensure the full removal of amortized equal access expenses from current rates.[549] Ameritech states that, in removing costs from price cap rates or indices, recognition must be given to the fact that the PCI has already operated to, in effect, remove a substantial portion of the costs that were included in price cap rates.[550] Ameritech contends that the essence of price cap regulation is to substitute the PCI for an annual examination of a carrier's costs and to assume, via the X-factor, that a certain fraction of a carrier's cost will, or should be, eliminated through a carrier's own efficiency enhancing efforts.[551] U S WEST states that past exogenous cost changes simply adjusted the PCI to reflect the original dollar impact on a going-forward basis when the adjustments were made close to the time when the adjustment should have been made.[552]

324. Generally, most LECs contend that the removal of amortized equal access expenses from current rates is not similar to the reversal of sharing.[553] BellSouth explains that the amount of the excess return is directly related to the amount of revenues achieved over time, and the amount of revenues grow over time with growth in demand.[554] BellSouth maintains that the amount to be removed in recognition of the completion of the amortization of equal access is a cost which was fixed at the outset of price cap regulation and did not change with demand.[555] Bell Atlantic explains that in the context of sharing, the "R" adjustment is intended to adjust the sharing amount so that the impact on price caps when sharing is reversed is the same as the impact on the caps when sharing was put into indices a

548 Bell Atlantic Direct Case at 8.

549 BellSouth Direct Case at 10; SNET Direct Case at 7; Ameritech Direct Case at 6-7; U S WEST Direct Case at 23-24.

550 Ameritech Direct Case at 6.

551 Ameritech Direct Case at 6.

552 U S WEST Direct Case at 24.

553 Bell Atlantic Direct Case at 10; SNET Direct Case at 9; SBC Companies Direct Case at 43; BellSouth Direct Case at 11; Frontier Direct Case at 7-8; Ameritech Direct Case at 6; U S WEST Direct Case at 24.

554 BellSouth Direct Case at 11.

555 BellSouth Direct Case at 11.

year earlier, thereby assuring that sharing is a one-time adjustment.[556]

325. Several LECs state that the equal access exogenous cost change is analogous to the exogenous change required by the Commission to recognize the completion of the amortization of depreciation reserve deficiencies and inside wiring costs.[557] BellSouth and Bell Atlantic argue that the exogenous changes for these amortizations were based upon the base period level of costs, and no adjustment was made for the change in demand from the beginning of price caps.[558] BellSouth asserts that there is no rationale for requiring the exogenous change for the equal access amortization to be treated any differently.[559] U S WEST argues that the lag in resolution of this issue makes it appropriate to reduce the equal access cost recovery amount by the change of the PCI at the time the liability was incurred.[560] Several LECs make a similar argument with respect to the amortization of OPEB costs. Specifically, they maintain that the Bureau rejected a revenue growth adjustment to the exogenous removal of OPEB costs stating, "since the Commission did not specifically require the LECs to follow the approach advocated by AT&T and MCI, we will not require the LECs to 'true-up' the reversal of OPEB amounts."[561] SBC argues that there is no basis in the record or any precedent to justify using a different methodology for the removal of equal access costs other than that used for the removal of OPEB costs.[562]

326. As indicated above, the LECs argue that the Commission may not require price cap LECs to make an R-factor adjustment in connection with the 1997 annual access tariff filings.[563] Frontier states that although the Commission expressly reserved the right to require future R-factor adjustments in the *1995 Annual Access Order*, it did not do so in either the

---

556 Bell Atlantic Direct Case at 10; *see also*, SNET Direct Case at 8; SBC Companies Direct Case at 42; Ameritech Direct Case at 6; U S WEST Direct Case at 23.

557 BellSouth Direct Case at 11; *see also*, Ameritech Direct Case at 7; U S WEST Direct Case at 24; Bell Atlantic Direct Case at 7.

558 BellSouth Direct Case at 11; Bell Atlantic Direct Case at 7-8.

559 BellSouth Direct Case at 11; *see also*, U S WEST Direct Case at 24; Ameritech Direct Case at 7; Frontier Direct Case at 7-8.

560 U S WEST Direct Case at 24.

561 SBC Companies' Direct Case at 41, *citing* 1995 Annual Access Tariff Filings of Price Cap Carriers, Memorandum Opinion and Order Suspending Rates, 11 FCC Rcd 5461 (1995); *see also*, Bell Atlantic at 7.

562 SBC Companies' Direct Case at 41; *see also,* Bell Atlantic Direct Case at 7; .

563 Frontier Direct Case at 7; SNET Direct Case at 8; SBC Companies Direct Case at 41; BellSouth Direct Case at 11.

Access Charge Reform or *Price Cap Reform* orders.[564] Specifically, in the *1995 Annual Access Order*, the Bureau stated that "the Commission will have the opportunity to review the method for reversing such adjustments in connection with its consideration of the petitions for reconsideration of the *Price Cap Performance Review for Local Exchange Carriers*."[565] SBC, Frontier, U S WEST, and Bell Atlantic assert that if the Commission wishes to require the use of the R-factor adjustment, it may do so only prospectively and only after conducting a properly noticed rulemaking proceeding.[566]

2. Oppositions

327. MCI argues that the current PCI must be set to ensure that today's rates for traffic sensitive basket services are no higher than if the equal access amortization rate element had not been part of the switched access basket on January 1, 1991.[567] MCI contends that an "R" value adjustment is required to remove fully the amortized equal access expenses from LEC rates.[568] MCI maintains that mathematically, adjusting the current indices to remove fully the effects of extraordinary costs reflected in the initial price cap indices is the same as a sharing reversal.[569] MCI further explains that the composition of the traffic sensitive basket differs from the composition of the switched access basket at the inception of price cap regulation; therefore, unadjusted "R" values cannot be used to compute delta-Z or the exogenous cost change.[570] MCI argues that LECs should be required to compute delta-Z by multiplying the equal access amortization amount included in the initial price cap index by the ratio of 1996 local switching service category revenues to 1991 local switching service category revenues.[571]

328. AT&T states that although the LECs (with the exception of Ameritech) properly calculated the amount of non-capitalized equal access costs that entered price caps, they

---

[564] Frontier Direct Case at 8.

[565] *In the Matter of 1995 Annual Access Filings of Price Cap Carriers*, DA 95-1631, 11 FCC Rcd 5461, 5471-72 (1995).

[566] Frontier Direct Case at 9; Bell Atlantic Direct Case at 41; U S WEST Direct Case at 25; SBC Companies Direct Case at 42.

[567] MCI Opposition at 10.

[568] MCI Opposition at 10.

[569] MCI Opposition at 11.

[570] MCI Opposition at 11.

[571] MCI Opposition at 11.

inappropriately reduced these amounts by the PCI change since January 1, 1991 and failed to apply the "R" value true-up.[572] As a result, AT&T argues that all of the LECs, except one, have substantially understated the exogenous adjustment required to remove equal access costs from their PCIs.

329. AT&T also contends that the LECs' arguments against an "R" value true-up are meritless.[573] AT&T provides two such examples: 1) Ameritech states that PCI deflation via the X-factor adjustment means that a substantial portion of equal access costs have been eliminated from the LECs' PCIs through normal operation of the price cap formula; and 2) BellSouth maintains that equal access was a fixed cost that did not grow from year to year.[574] AT&T asserts that Ameritech's statement is true but irrelevant; it does not obviate the need for the true-up, since whatever equal access revenues have been reduced by the operation of the X-factor have increased due to growth in demand volumes.[575] As to BellSouth's statement, AT&T also states that whether or not equal access costs have grown, because of increased demand, the LECs have been able to recover more revenues over time stemming solely from the inclusion of the equal access cost amortization in their PCIs.[576] Because volume growth is not reflected in the X-factor adjustment, AT&T maintains that the downward exogenous adjustment must reflect current demand, in order to ensure complete removal of those equal access costs still remaining in the LECs' PCIs.[577]

330. AT&T further argues that in accordance with established Commission requirements, the LECs must use a revenue growth adjustment to remove fully the impact of previous periods' costs.[578] AT&T states that this equal access exogenous cost adjustment is analogous to the removal of previous periods' exogenous cost adjustments for which the Commission has required the LECs to true up the basket revenues to account for basket revenue growth.[579] AT&T maintains that the current basket revenues include the net impact of PCI changes and volume growth since January 1, 1991 and allow removal of the full

[572] AT&T Opposition at 18.

[573] AT&T Opposition at 18.

[574] AT&T Opposition at 19.

[575] AT&T Opposition at 19.

[576] AT&T Opposition at 20.

[577] AT&T Opposition at 20.

[578] AT&T Opposition at 20.

[579] AT&T Opposition at 21.

amount of equal access costs.[580]

331. In addition, AT&T and MCI state that the LECs' arguments that the imposition of any "R" value true-up would constitute an impermissible retroactive rulemaking, are meritless.[581] AT&T contends that in the *Access Charge Reform Order*, the Commission directed the removal of equal access costs and left implementation details to the Bureau.[582] Moreover, the *1995 Suspension Order* recognizes that express Commission authority is not needed to require an "R" true-up, especially where the Commission's order requiring the downward exogenous adjustment does not state that the same exact dollar amounts originally included in the PCIs are to be removed.[583]

332. AT&T and MCI maintain that the LECs' contention that the Commission has not required "R"adjustments for completion of amortizations of depreciation reserve and inside wiring is inapposite, because the completion of those amortizations was reflected in annual downward exogenous adjustments. AT&T states that there have been no such annual adjustments for equal access costs; thus, an "R" value true-up is required to remove the full impact of the completion of equal access amortization as an end adjustment. AT&T further states that making the "true-up" adjustment based on the local switching band revenue growth is appropriate because equal access costs remained in the LECs' local switching band since January 1, 1991.[584] According to AT&T, the true-up adjustment will provide a more accurate adjustment as compared to traffic sensitive basket revenues, because a major portion of the LECs' traffic sensitive basket revenues were moved to the trunking basket, when that basket was created in 1994 as part of the local transport restructure.[585]

333. AT&T also argues that the LECs' PCIs are overstated by $60.7 million due to their failure to make the "R" true-up and their inappropriate PCI deflation.[586] AT&T states that the Commission should therefore require the LECs to adjust their January 1, 1991 equal access amortization costs by the percentage their local switching band revenues have grown

[580] AT&T Opposition at 21.

[581] AT&T Opposition at 23; *see also*, MCI Opposition at 12-13.

[582] AT&T Opposition at 23.

[583] AT&T Opposition at 23; *see also*, MCI Opposition at 12-13.

[584] AT&T Opposition at 23-24.

[585] AT&T Opposition at 24.

[586] AT&T Opposition at 24.

since January 1, 1991, and then remove those amounts from their current PCIs.[587]

3. Replies

334. U S WEST argues that it correctly calculated the adjustment to remove equal access cost recovery from its access charges.[588] Specifically, U S WEST states that it determined the non-capitalized portion of the equal access expense as of year-end 1990, which was immediately prior to implementation of the first price cap rates.[589] It then added to that amount an 11.25% return on the average deferred interstate balance and grossed up that return for taxes.[590] This sum was then reduced to reflect the reduction in its local switching PCI (approximately $4.8 million) since the time rates came under price caps.[591]

335. U S WEST argues that under the price cap regime, LECs' prices are disconnected from their costs, and making the "R" adjustment would unnecessarily bring the two together again. [592] U S WEST further contends that attributing revenue growth to costs incurred years before is a meaningless concept with no basis in reality.[593] U S WEST states that under price caps, "R" is a function of rates and demand; prices no longer have a direct relationship to costs.[594] In implementing similar exogenous changes (*e.g.*, inside wire amortization and the depreciation reserve deficiency amortization), U S WEST maintains that price cap LECs have removed the costs at the level that they were initially incurred, without adjusting them for the growth in "R".[595] U S WEST further argues that when the Commission ordered the removal of the equal access amortization, it specifically stated that it would "accord the expiration of equal access cost amortizations the same exogenous cost treatment given to the amortizations

---

[587] AT&T Opposition at 24.

[588] U S WEST Rebuttal at 13.

[589] U S WEST Rebuttal at 13.

[590] U S WEST Rebuttal at 13.

[591] U S WEST Rebuttal at 13.

[592] U S WEST Rebuttal at 14.

[593] U S WEST Rebuttal at 14; *see also*, Bell Atlantic Rebuttal at 5.

[594] U S WEST Rebuttal at 14.

[595] U S WEST Rebuttal at 15; *see also*, BellSouth Rebuttal at 6-7; Frontier Rebuttal at 2-3; SBC Companies Rebuttal at 8-9; Bell Atlantic Rebuttal at 5-6.

of the depreciation reserve deficiencies and inside wiring costs."[596]

336. U S WEST then contends that adjusting the exogenous change to reflect PCI reductions is necessary to maintain the separation between prices and costs.[597] It explains that although the costs at issue played some role in the development of the rates in effect when price caps took effect, that connection has become attenuated over time, as PCI reductions brought about reductions in the LECs' rates, without regard to the changes in their costs.[598] U S WEST claims that there is no way to measure this attenuation with any precision, but the intervening PCI changes provide a reasonable proxy.[599] U S WEST notes that the Commission accepted the same sort of adjustment in its filing to remove payphone costs from the CCL charge.[600]

337. The LECs maintain that there is a distinct difference between sharing reversals and the removal of costs, with the most relevant precedent being the rejection of an "R" adjustment for the removal of OPEB costs from PCIs.[601] Ameritech explains that since sharing clearly involves a specific dollar amount of revenue that must be shared with access customers, it is appropriate to make an "R" adjustment when sharing is reversed to make sure that the same amount of revenue is added back to the indices.[602] Ameritech states that in this case, costs are not directly related to revenues--especially in the price cap regime--therefore, no "R" adjustment is appropriate.[603]

338. Bell Atlantic states that AT&T continues to claim erroneously that any growth adjustment should be based only on the local switching band, yet elsewhere in its opposition, AT&T acknowledges that its proposed adjustment should be based on basket revenues.[604] By isolating local switching growth, Bell Atlantic argues that AT&T ignores the slower growing

596 U S WEST Rebuttal at 16, *citing Access Charge Reform Order* at ¶ 310; *see also*, BellSouth Rebuttal at 7.

597 U S WEST Rebuttal at 16; *see also*, Ameritech Rebuttal at 5-6.

598 U S WEST Rebuttal at 16.

599 U S WEST Rebuttal at 16; *see also*, Ameritech Rebuttal at 5-6.

600 U S WEST Rebuttal at 17.

601 SBC Companies Rebuttal at 9; *see also*, Bell Atlantic Rebuttal at 5-6; Ameritech Rebuttal at 6.

602 Ameritech Rebuttal at 6.

603 Ameritech Rebuttal at 7.

604 Bell Atlantic Rebuttal at 6.

local transport revenues, which were part of the same basket prior to restructure.[605] If the Commission requires a demand adjustment, Bell Atlantic maintains that it should be based on total basket revenues and not just local switching revenues as AT&T claims.[606]

1. SNET's Calculation of the Initial Equal Access Exogenous Cost Revenue Requirement

a. Contentions of the Parties

339. SNET states that it adjusted its equal access cost by multiplying the equal access revenue requirement by the ratio of the current (*i.e.*, June 30, 1997) traffic sensitive PCI over the initial 1991 traffic sensitive PCI.[607] According to SNET, this adjustment accounted for the significant reduction in its local switching prices and revenues driven by the application of the Commission's annual productivity offsets ("X-factors").[608] SNET contends that it should not be required to increase its original equal access exogenous cost requirement by revenue growth without an offsetting adjustment for its PCI reductions since 1991.[609]

340. In response to AT&T's allegation that SNET understated its equal access exogenous cost adjustment by approximately $2.1 million, SNET claims that the discrepancy between SNET's 1990 Cost of Service No. 5 Report (COS-5) and its stated exogenous cost can be explained by its specific circumstances relative to its equal access mandate and the manner in which SNET completed the 1990 report.[610] SNET explains that its initial equal access implementation expenses were limited to the conversion of lines served by then-existing stored program control offices.[611] Offices without stored program control lines were not part of this equal access implementation. SNET then states that even though expenses associated with this mandated equal access conversion of stored program control lines were amortized over an eight-year period ending December 31, 1993, expenses were no longer

[605] Bell Atlantic Rebuttal at 6.

[606] Bell Atlantic Rebuttal at 6.

[607] SNET Direct Case at 7.

[608] SNET Direct Case at 7.

[609] SNET Direct Case at 8; *see also*, U S WEST Direct Case at 23; Ameritech Direct Case at 7.

[610] SNET Direct Case at 4.

[611] SNET Direct Case at 5.

incurred for this initial conversion after 1988.[612] SNET contends that thereafter costs associated with the conversion of non-stored program controlled lines to equal access were expensed in the year in which they were incurred.[613]

341. SNET explains that the calculation of its initial equal access exogenous cost revenue requirement included only equal access expenses from prior periods, because only those costs associated with its initial equal access conversion were amortized at the initiation of price caps, and therefore needed to be taken out of the PCI in accordance with the *Access Charge Reform Order*.[614] The equal access costs associated with its overall modernization program that were expensed in the year in which they were incurred were entered as "current" period in the COS-5.[615] SNET states that it complied with the instructions for completing the COS-5 by reporting the amortized expenses mandated by the Commission for initial equal access conversion of its stored program control offices as well as the directly expensed costs associated with the conversion of its non-stored program control offices on the "current" period line of the COS-5.[616]

b. Replies

342. SNET states that its 1997 annual access tariff filing is correct in that all amortized non-capitalized expenses associated with its initial equal access conversion, completed in 1988, have been reflected in the calculation of its initial equal access exogenous cost revenue requirement upon the initiation of price cap regulation.[617] SNET contends that the Commission ordered the removal of amortized equal access expenses, not expenses that were directly expensed in the year in which they were incurred and were part of the normal cost of doing business.[618]

2. Ameritech's Equal Access Amortization Revenue Requirement

---

[612] SNET Direct Case at 5. SNET notes that 100 percent of its stored program control lines had been converted as of March 31, 1988.

[613] SNET Direct Case at 6.

[614] SNET Direct Case at 6.

[615] SNET Direct Case at 6.

[616] SNET Direct Case at 6.

[617] SNET Rebuttal at 5.

[618] SNET Rebuttal at 5.

a. Contentions of the Parties

343. In response to the directive to explain and document fully how Ameritech used its separations information system data to determine the portion of equal access costs that were amortized, Ameritech states that the total equal access cost recovery amount included in its pre-price cap rate was based on the total equal access revenue requirement filed as part of its 1990 annual access filing and appearing in the COS-5 report.[619] Since that report did not have detail to determine the non-capitalized portion of those costs, Ameritech claims that it obtained actual data from its separations system.[620] The data collected from its separations system shows that the actual non-capitalized portion was 36% of total equal access costs.[621]

b. Oppositions

344. With respect to Ameritech's calculation of its equal access amortization costs, AT&T argues that Ameritech has failed to calculate properly the amounts of equal access amortization costs that were reflected in its baseline equal access rates at the outset of price caps in 1991.[622] AT&T states that, in its Direct Case, Ameritech fails to justify its calculation of the revenue requirement associated with the amortized equal access expenses.[623] AT&T maintains that the price cap LECs' initial equal access rates were based on the equal access revenue requirements filed as part of the LECs' 1990 annual tariff filings in the COS-5.[624] AT&T argues that Ameritech used one data source to calculate its total equal access revenue requirement and a separate source (labeled "Separations Information System (7/90-6/91)") or point in time to calculate its "non-capitalized" revenue requirement.[625] AT&T contends that the data values reported from the "Separations Information System" do not appear to agree with the data on the COS-5. AT&T argues that Ameritech does not justify the use of this source and does not dispute that the reported COS-5 data formed the basis for its pre-price cap equal access rates, its initial rates under price caps, and its price cap indices.[626]

---

619 Ameritech Direct Case at 8.

620 Ameritech Direct Case at 8.

621 Ameritech Direct Case at Exhibit 10.

622 AT&T Opposition at 25.

623 AT&T Opposition at 25.

624 AT&T Opposition at 25-26.

625 AT&T Opposition at 26.

626 AT&T Opposition at 27.

345. AT&T further states that Ameritech divides its actual non-capitalized equal access expenses for the 1990 tariff period by its COS-5 projected total equal access revenue requirement to determine the amount of non-capitalized expenses used to establish its initial price cap equal access rate.[627] According to AT&T, Ameritech's use of "actual" data is not a reliable mechanism for computing the non-capitalized equal access expenses which entered Ameritech's price cap rate, because its rate was based on revenue requirement projections made well in advance of the availability of actual results.[628] AT&T states that its calculations show that Ameritech has understated its equal access exogenous cost adjustment by approximately $1 million.[629]

c. Replies

346. Ameritech maintains that AT&T incorrectly insists that it was improper for it to use actual data to determine the amount of non-capitalized equal access costs included in pre-price cap rates.[630] Ameritech states that the total equal access revenue requirement forecast filed as part of its 1990 annual access tariff filing and appearing in the COS-5 Report did not have sufficient detail to determine the non-capitalized portion of those costs.[631] Ameritech explains that the actual data obtained from its separation system showed that the actual non-capitalized portion of equal access costs was 35.68% of total equal access costs.[632] Ameritech states that that percentage was then applied to the forecast amount to determine the percentage of the forecast amount that represented non-capitalized equal access costs.[633]

C. Other Billing and Collection

1. Contentions of GTE Regarding Apportionment of Customer Services Expenses Among Categories

627 AT&T Opposition at 27.

628 AT&T Opposition at 27.

629 AT&T Opposition at 28. AT&T states that it recalculated Ameritech's net revenue requirement using only COS-5 data and that the equations AT&T used are identical to the formulas used by the majority of the LECs to separate their COS-5 data into its component non-capitalized and capitalized accounts. AT&T Opposition at 28.

630 Ameritech Rebuttal at 7.

631 Ameritech Rebuttal at 7.

632 Ameritech Rebuttal at 7.

633 Ameritech Rebuttal at 8.

347. GTE states that the rapid growth in its Category 3 expense is primarily due to an increase in customer service administration expense. One reason for this increase, GTE explains, was the centralization of the management of customer "contact care centers" and the consolidation of those centers. GTE states that it opened a national, multilingual, customer service center which assists all GTE customers requiring service in Spanish or an Asian language. According to GTE, another reason for the increase in customer service administration expense, was its increase in company official telecommunication charges. GTE explains that, following the consolidation of its customer care centers, its managers experienced a need for greater internal communications.[634] GTE further states that the rapid increase in Category 3 expense is also due to an increase in public telephone commissions.[635]

348. GTE attributes the rapid decline in its Category 1 expense to two changes. The first change was the consolidation of customer service centers. GTE claims that this consolidation *reduced* customer service expenses such as billing inquiry and service order processing expenses.[636]

349. The second change, GTE states, was the decision by IXCs to take back certain billing functions that GTE had been performing on their behalf which also caused a decrease in Category 1 expense. GTE claims that this development caused a decrease in IXC payment and collection expense, which is a Category 1 expense.[637] In response to additional questions from Bureau staff members, however, GTE states that the IXCs' take back was not the primary cause for this decrease in IXC payment and collection expense.[638] Rather, the primary cause was the renegotiation of a contract with a major IXC.[639] That new contract, GTE states, removed the cap that had been placed on uncollectibles by the old contract.[640] According to GTE, this change caused a reduction in IXC uncollectibles beginning in 1996.[641]

[634] Letter from W. Scott Randolph, Director-Regulatory Matters, GTE to William F. Caton, FCC, at 1, dated September 18, 1997.

[635] Letter from W. Scott Randolph, Director-Regulatory Matters, GTE to William F. Caton, FCC, at 1, dated September 18, 1997.

[636] GTE Direct Case at 28.

[637] GTE Direct Case at 28.

[638] Letter from W. Scott Randolph, Director-Regulatory Matters, GTE to William F. Caton, FCC, at 2, dated September 26, 1997.

[639] *Id.*

[640] *Id.*

[641] *Id.*

2. Contentions of the Parties Regarding Apportionment of OB&C Expense Among Service Classes

350. GTE asserts that its message toll user counts decreased relative to the user counts for other services partly as a result of the creation in 1996 of new EAS routes in several states.[642] GTE further asserts that the decline is attributable in part to the IXCs' "take-back" of billing and collection functions that GTE had been performing on their behalf.[643] U S WEST also claims that its message toll user counts decreased due to the IXCs' take-back of billing and collection functions.[644] Pacific Bell contends that it develops user counts by counting a customer as a user for each class of service shown on the customer's bill.[645]

351. In response to additional questions from Bureau staff members, Pacific Bell, GTE and U S WEST explain that they generally did not count message toll users if the users' toll calls were handled by large IXCs, which primarily purchase "invoice-ready" billing service from Pacific Bell, GTE and U S WEST.[646] With invoice-ready billing service, the IXCs must perform several billing functions on their own.[647] They capture the recording information from their own switches, rate the calls, and accumulate this billing information by month.[648] At the end of each month, the IXCs transfer to Pacific Bell, GTE and U S WEST the completed invoices, which are already pre-formatted and ready for printing. Pacific Bell, GTE and U S WEST then print the invoices and insert them into their end user bills.[649] The companies acknowledge that IXC toll messages thus appear on the end user bills that are printed and mailed by these companies.[650] Pacific Bell, U S WEST, and GTE all calculated

[642] GTE Direct Case at 29.

[643] GTE Direct Case at 29.

[644] U S WEST Direct Case at 35.

[645] Pacific Bell Direct Case at 44.

[646] Letter from B. Jeannie Fry, Director-Federal Regulatory, SBC Communications Inc. to William F. Caton, FCC, at 1, dated October 3, 1997; Letter from W. Scott Randolph, Director-Regulatory Matters, GTE, to William F. Caton, FCC, at 7, dated September 26, 1997; Letter from BB Nugent, Executive Director-Federal Regulatory, U S WEST, to William F. Caton, FCC, at 2, dated September 25, 1997.

[647] Letter from W. Scott Randolph, Director-Regulatory Matters, GTE to William F. Caton, FCC, at 5, dated September 26, 1997; Pacific Bell Direct Case at 48.

[648] *Id.*

[649] *Id.*

[650] *Id.*

their message toll user counts by determining the number of toll messages handled on their own interexchange networks, together with the IXC toll messages billed through other billing services such as message-ready billing, wherein they not only print bills but also rate, record, and accumulate the IXC toll messages.[651]

3. Contentions of U S WEST Regarding the Substitution of Direct Assignment for Prescribed Allocation Factor

352. U S WEST submits that it directly assigns OB&C Expense that is incurred for billing services provided to U S WEST by other ILECs. U S WEST further submits that this use of direct assignment is required by Section 36.2(e).[652] U S WEST explains that independent ILECs charge it for performing billing functions associated with various settlement plans. The bills issued to U S WEST designate the jurisdiction for each charge, enabling U S WEST to then book the resulting expenses (*i.e.*, payments for each charge) as wholly interstate or intrastate. These billed charges are associated with traffic between the ILEC and U S WEST's serving territory. U S WEST contends that these expenses fit the criteria established by the Section 36.2(e) because the expenses are directly associated with a jurisdiction already identified by another company that is subject to the separations rules.[653]

4. Contentions of the Parties Regarding Separation of Message Toll Billing Expense

353. GTE and Pacific Bell claim that the unusually low interstate shares of billed toll messages reported for 1995 and 1996 are attributable primarily to decreasing demand for their billing services. Specifically, they assert that the largest IXCs decided to take-back certain billing and collection functions that these ILECs had been providing to IXCs.[654] Although

---

[651] Letter from W. Scott Randolph, Director-Regulatory Matters, GTE to William F. Caton, FCC, at 5 and 7, dated September 26, 1997; Letter from BB Nugent, Executive Director-Federal Regulatory, U S WEST to William F. Caton, FCC, at 2, dated September 25, 1997; Letter from B. Jeannie Fry, Director-Federal Regulatory, SBC Communications Inc. to William F. Caton, FCC, at 1 dated October 3, 1997.

[652] U S WEST Direct Case at 26-27. The rule states that "[c]osts associated with services or plant billed to another company which have once been separated under procedures consistent with general principles set forth in this part, and are thus identifiable as entirely interstate or state in nature, shall be directly assigned to the appropriate operation and jurisdiction."

[653] U S WEST Direct Case at 26-27.

[654] GTE Direct Case at 30; Pacific Bell Direct Case at 52-53. Pacific Bell notes that, although the *decline* in the interstate share of billed toll messages is primarily attributable to the IXC "take-back," that interstate share was low throughout the 1990-1996 period due to calling patterns within the San Francisco, Los Angeles, Sacramento and San Diego LATAs. Pacific Bell states that intraLATA toll carried end-to-end by Pacific Bell accounted for at least two-thirds of billed messages during that period. Pacific Bell Direct Case at 52.

GTE does not identify these functions, Pacific Bell explains that the IXCs migrated from a message-ready billing service to an invoice-ready billing service.[655] Pacific Bell states that the migration by AT&T alone is largely responsible for the 66 percent decline in Pacific Bell's interstate share of billed messages that occurred in 1996.[656]

354. GTE and Pacific Bell submit that these two types of billing services are very different. When providing message-ready billing service, they receive messages from an IXC on a daily or weekly basis and then accumulate the messages, calculate taxes, and format the information for the end user bills.[657] Pacific Bell argues that large IXCs generally use this type of billing service only for their casual and nonsubscription customers.[658] For most IXC customers, *i.e.*, the presubscribed residential customers, the large IXCs now use invoice-ready billing, which requires IXCs to perform several billing functions on their own.[659] They capture recording information from their switches, rate the calls, and accumulate the billing information by month.[660] With that information, the IXCs create pre-formatted invoices, which are transferred electronically, once every billing cycle, to the ILECs and are ready for printing.[661]

355. GTE and Pacific Bell state that, when developing allocation factors for message toll billing expense, they exclude some IXC toll messages that appeared on customer bills.[662] Specifically, they count the IXC toll messages if they were billed through message-ready billing but not if they were billed through invoice-ready billing. The invoice-ready messages should not be considered, they assert, because the cost of invoice-ready billing service is

655 GTE indicates only that a take-back occurred. GTE Direct Case at 30. Pacific Bell states that, for certain large business customers, the IXCs took back all billing and collection functions. Pacific Bell Direct Case at 52.

656 Pacific Bell Direct Case at 53.

657 GTE Rebuttal Case at 6; Pacific Bell Direct Case at 47-48.

658 Pacific Bell Direct Case at 47-48.

659 Pacific Bell, for example, states that AT&T substituted invoice-ready billing service for message-ready billing service, causing Pacific Bell's interstate share of billed messages (net of the invoice-ready messages) to decrease by 66 percent in 1995. *See,* Pacific Bell Direct Case at 53.

660 GTE Rebuttal Case at 6; Pacific Bell Direct Case at 47-48.

661 *Id.*

662 Letter from W. Scott Randolph, Director-Regulatory Matter, GTE, to William F. Caton, FCC, at 4, dated September 18, 1997; Pacific Bell Direct Case at 47-48.

minimally affected by the number of messages appearing on customer bills.[663] That cost is most affected, Pacific Bell further asserts, by the number of customer bills mailed out and the number of IXC pages included in the bills.[664] GTE further argues that invoice-ready billing service does not include the recording, rating, and accumulation functions that message-ready billing service usually involves.[665]

356. AT&T argues that this practice of selectively excluding IXC toll messages from billed message counts is inconsistent with the former separations rules. AT&T argues that there is no provision in those rules that excludes any billed toll messages from the message counts used in separating the Message Toll portion of OB&C Expense.[666] AT&T observes that, because the interstate share of the excluded toll messages is considerably higher than the interstate share of the included toll messages, this error caused OB&C exogenous costs to be overstated.[667]

5. Contentions of the Parties Regarding the Calculation of Exogenous Change in Interstate Expenses

357. GTE states that it used data for the 12 months ending June 1996 primarily because of its administrative and resource limitations. GTE claims that it was not feasible to wait for the results of calendar year data on a study area basis. GTE argues that it attempted to calculate as many of the exogenous costs as possible in the fourth quarter of 1996, and that a full calendar year of data was unavailable for that year when GTE made its calculations. GTE contends that this was necessary to calculate its exogenous costs for its April 1, 1997 annual price cap filing in the fourth quarter of 1996, because the same group that develops that data is also directly involved in developing the ARMIS reports, which are due at approximately the same time of the year.[668]

358. Pacific Bell argues that it should be permitted to use 1995 data for purposes of calculating the OB&C exogenous change based on Sections 61.3(e), 61.45(a) and 61.45(c) of the rules. Pacific argues that 61.3(e) defines the base period used in 61.45(c) as the 12-month period ending six months prior to the effective date of annual price cap tariffs. Pacific Bell

---

663 GTE Rebuttal Case at 9; Pacific Bell Direct Case at 47-48.

664 Pacific Bell Direct Case at 47-48.

665 GTE Rebuttal Case at 6.

666 AT&T Opposition to Direct Cases at 30.

667 *Id.* at 31.

668 GTE Direct case at 32-33.

also argues that Section 61.45(a) requires that it maintain updated PCIs to reflect mid-year exogenous cost changes.[669] Pacific argues that it is required to use a 1995 base period because it made a mid-year exogenous cost change that took effect between July 1, 1996 and June 30, 1997. Pacific Bell states that it filed a letter updating its price caps but did not file a transmittal letter and cost support at that time because it was not revising rates or regulations in the tariff and because the Bureau indicated it did not want data filed for mid-year exogenous cost changes until such time as the ILEC filed its revised tariff. Pacific filed its tariff including the OB&C adjustment on July 1, 1997.[670]

359. U S WEST reasons that it could have filed the exogenous changes on May 1, the effective date for the new separations rules, and begun collecting the increased interstate assignment at that time. U S WEST claims it did not do so in order to spare the FCC the administrative burden of two separate filings.[671] MCI and AT&T, however, argue that the proposed exogenous increase represents a retroactive rate increase that is prohibited by the filed rate doctrine.[672] MCI further argues that, "U S WEST made a decision to forego recovering revenues that it was permitted to recover by the Commission's rules, and cannot now recoup these revenues."[673] AT&T states that U S WEST is attempting to recover 14 months of increased OB&C costs during a 12 month period.[674]

III. Cash Working Capital for Rate-of-Return Carriers

A. Concord

360. Concord asserts that its study is still accurate notwithstanding that it used 1993 data because its operating conditions have not, with limited exceptions, changed substantially since the preparation of the study.[675] According to AT&T, Concord's lead-lag study is fatally flawed because it was conducted using outdated data.[676]

---

[669] Pacific Bell Direct Case at 53-54.

[670] *Id.*

[671] U S WEST Direct Case at 35-36. U S WEST revised the amount requested to $1.4 million. *Id.*, Exhibit 22, at 1.

[672] MCI Opposition to Direct Cases at 14; AT&T Opposition to Direct Cases at 32.

[673] MCI Opposition to Direct Cases at 14.

[674] AT&T Opposition to Direct Cases at 33.

[675] Concord Direct Case at 1.

[676] AT&T Opposition at 36.

B. Chillicothe

1. Contentions of the Parties

361. Chillicothe's lead-lag study is based on 1990 calendar year data. Chillicothe analyzes data for the entire 1990 calendar year where it is administratively feasible to conduct such an analysis. Chillicothe uses data from a "representative three month period" in 1990 in cases where Chillicothe asserts the full year analysis would be administratively burdensome.[677] Chillicothe contends that the 1990 data is still current and that it has not experienced a dramatic change in revenues or expenses since it last conducted its lead-lag study.[678] In addition, Chillicothe seeks an allowance to account for the time it spends waiting for payment to true-up data from prior NECA settlement processes.[679] Accordingly, Chillicothe uses a lead-lag study that includes an adjustment for a large late payment from the April 1990 NECA settlement process to true-up prior period data that significantly increases Chillicothe's NECA revenue lag.[680] To calculate this NECA revenue lag, Chillicothe analyzes data not only from 1990 but also analyzes data from the prior two years, 1989 and 1988, to take prior period adjustments into account.[681] Using this analysis, Chillicothe calculates a lag for its NECA allowance of 194 days.

362. According to AT&T, Chillicothe's lead-lag study is unacceptable because it uses outdated data.[682] AT&T also disputes the 194 days that Chillicothe contends is necessary for the NECA settlement process. Instead, AT&T asserts that the process should take no more

---

[677] Chillicothe Rebuttal at 3.

[678] Chillicothe Direct Case at 5.

[679] The NECA pool is designed to benefit small carriers with higher costs. Our rules require the LECs, on a monthly basis, to report to NECA their revenue, expense and investment data. NECA uses this data to compute each LECs monthly pool shares. *See* 47 C.F.R. § 69.605. Because LECs do not have complete data available when they first report to NECA, the LECs initially report estimated data. In the following months, the LECs are required to true-up data by reconciling their estimates with actual results. To ensure the accuracy of the reconciliation process, and because, even the best accounting procedures sometimes fail to prevent errors, NECA procedures allow the LECs twenty-four months to reconcile and correct previously submitted data. Thus, in each monthly "settlement cycle," LECs report estimated data for the current month as well as adjusted data for the preceding twenty-four months.

[680] To true-up its data, a LEC reconciles its estimated data with actual results.

[681] Chillicothe Direct Case at 2.

[682] AT&T Opposition at 36.

than 60 days.[683]

2. Replies

363. In its rebuttal, Chillicothe contends that AT&T neglects to consider the annual true-up to adjust a carrier's NECA monthly settlement.[684] Chillicothe further contends that its NECA settlement process is not unique because all participating companies first settle on a preliminary estimate, then true up that data during the year based on actual cost data, and continue to make adjustments as needed to finalize settlement with respect to the service period.[685] Chillicothe asserts that this annual true-up is a significant factor in determining its NECA allowance lead-lag period.[686] Chillicothe further contends that the 60-day period that AT&T develops is inaccurate for blanket application to all NECA participants.[687] With respect to the months used in its lead-lag study, Chillicothe contends that the Commission in creating the simplified formula, contemplates that carriers would use a period of less than one year as part of the simplification process.[688] With respect to the age of the study, Chillicothe asserts that it would be impractical and onerous for it to conduct the study more frequently.[689]

C. Roseville

1. Contentions of the Parties

364. Based on its lead-lag study using primarily 1994 data, Roseville asserts that its composite net lag is 49 days.[690] With respect to its NECA allowance, Roseville states that it analyzes three time periods: (1) service midpoint to end of service period, which is an average of 30 days; (2) end of service period to deposit which is an additional 30 days; and

683 AT&T Opposition at 38.

684 Chillicothe Rebuttal at 6.

685 *Id.*.

686 *Id.*

687 *Id* at 6.

688 *Id* at 3.

689 *Id.* at 5.

690 Roseville uses 1994 data to compute all of its individual revenue lags except the individual revenue lag for its NECA settlement amount. For its NECA settlement amount revenue lag, Roseville uses data from April 1994 through March 1995.

(3) a review of the two previous calendar years to take into account prior period adjustments.[691] On this basis, Roseville calculates a lag of 82 days. Roseville contends that its settlement process with NECA is not unique because all participating companies first settle on a preliminary estimate, then true that data up during the year based on actual cost data, and continue to make adjustments as needed to finalize settlement with respect to the service period.[692] Roseville further asserts that a change in cost data for one company has an impact on each NECA pool member's final settlement for any given service month.[693] Finally, Roseville states that the Commission should not automatically assume that a study supporting a greater lag than 15 days is invalid and should instead be prepared to accept net lag periods which accurately reflect a company's operating expense but differ from the Commission's standard.[694]

365. Based on its calculations, AT&T asserts that Roseville overstates its cash working capital requirement by $1,475,195. To calculate this amount, AT&T, calculates a 62.3 composite revenue lag, by developing comparable lag days using only Roseville's Rate of Return Regulated Interstate Access (ROR I/S Access) numbers. AT&T divides Roseville's ROR I/S Access amount by 365 to arrive at its computation of Roseville's daily cash expenses. AT&T then divides Roseville's filed cash working capital allowance by AT&T's calculation of daily cash expenses to arrive at 62.3 comparable lag days. To determine Roseville's alleged excess cash working capital first, AT&T multiplies its computation of daily cash expenses by 15 days to arrive at its calculation of a 15-day cash working capital allowance for Roseville. Then, AT&T subtracts this figure from Roseville's filed cash working capital allowance to arrive at the alleged excess of $1,475,195.

2. Replies

366. In its response, Roseville contends that it does not overstate its cash working capital needs. Instead, according to Roseville, AT&T miscalculates Roseville's composite revenue lag and corresponding cash working capital needs because AT&T understates Roseville's interstate expenses and daily expenses.[695] Roseville asserts that its composite net revenue lag should be 49 days and its corresponding total interstate cash working capital needs should be $1,942,621.

D. PRTC

[691] Roseville Direct Case at 16-17.

[692] *Id.* at 17.

[693] Roseville Rebuttal at 8.

[694] *See* Roseville Direct Case at 4.

[695] *See* Roseville Rebuttal at 4-5.